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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, DECEMBER 8, 1980 VOLUME XVII, NUMBER 49

Little Holiday Cheer . . .

Christmas 1980 finds retail trade in a depressed state. Rising interest rates are adding to already existing pressures adversely affecting both consumers and retailers. A Christmas shopping season shorter this year by five days, coupled with earlier than usual markdowns and other promotional campaigns, will probably cut into dollar volume in this important selling period. Profitability will be further dampened by the substantially higher costs of carrying inventory, forcing retailers to monitor their stocks carefully.

Meanwhile, consumers' discretionary incomes are being squeezed as an increasingly larger share of their wages and salaries is needed for such basic necessities as food, maintaining and financing a home and for gasoline. Prices of home heating fuel have now begun to increase and home owners are filling up their tanks for the first time during this heating season.

In contrast to these gloomy signs, the Conference Board reported that consumer confidence has improved and the index of buying plans rebounded in November after a decline during the previous month. The Christmas season got off to a good start, but retailers have noticed a change in consumer attitudes. Shoppers are being selective and are willing to spend more time and effort searching for good value. They are also more conservative, looking for practical, quality merchandise and shying away from trendy or frivolous items. Higher consumer debt burdens and a decreasing savings rate will apparently become consumers' new reality, but sales of big-ticket durables will be hampered for some time because of the slump in new-home construction and the low rate of house transfers.

. . . Among The Nation's Retailers

The resurgence in interest rates has again put pressure on the automobile industry—one of the sectors that was badly hit by the severe downturn in economic activity during the second quarter. Sales of domestic automobiles continue to lag significantly behind last year's sluggish rate. Despite some strength registered at the beginning of the 1981 model year—as the new smaller and fuel-efficient cars were introduced—sales subsequently retreated. They ran at a seasonally adjusted 5.8 million unit rate during the last ten days of November, matching last spring's lows.

Both car dealers and buyers have been hit by rising prices and higher interest rates. The increased costs of carrying inventory have forced dealers to hold fewer automobiles in stock than usual, thus risking the possibility of losing sales. While a 60-day supply is considered normal at this time of the year, trade sources report that automobile dealers have about 56 days of inventory at recent sales rates. For the consumer, higher finance charges translate into higher monthly payments, swelling further the already high price of new automobiles.

The Locomotive . . .

It was not long ago that proponents of the "locomotive" theory of economic recovery argued that coordinated expansionary economic policies by the United States, West Germany, the United Kingdom and Japan, among others, could pull the rest of the world toward recovery and sustained growth. Although this theory has not been tested (due mainly to fears of increasing inflation and the difficulty of coordinating national goals), it is generally agreed that these economies exert a powerful influence on the world economy. It is, therefore, a bad omen for the near future that three of the four principal nations of the free world are either in recession or in very lethargic recoveries.

Japan is the exception. Although experiencing lower than usual real economic growth, Japan is still relatively prosperous compared with other major industrial economies. Barring strong protectionist action against its exports, Japan is likely to weather the recession without difficulty. As for the United States, whether or not the recession has ended is still a widely debated question. Whatever the case, it is generally agreed that 1981 will be a slow-growth year at best. In Europe, however, evidence of a slump is less ambiguous.

. . . Is Slowing . . .

Weakness in the West German economy is pervasive. Real GNP growth this year is expected to

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reach barely two per cent after 4.4 per cent growth in 1979. In the second quarter of this year, real GNP dropped precipitately by 7.9 per cent, at an annual rate, after rising 8.9 per cent in the first quarter. In 1981 real growth is expected to be between zero and one per cent, possibly with one or two negative quarters in the first half of the year.

Industrial production is down as well. In September it fell 2.5 per cent (seasonally adjusted) below the previous month. Steel and automobile production have been especially hard hit. In the first nine months of 1980, steel production was down 2.5 per cent from the same period of last year. Automobile production was down 13.9 per cent in October compared with the same month last year.

Retail sales in West Germany have suffered, falling by 0.5 per cent (seasonally adjusted) in September from the previous month. They were down 4.7 per cent from the same month a year ago. New car registrations in October were 3.1 per cent below the same month in 1979. Consequently, new orders to industrial concerns declined by 3.3 per cent in September from the same month one year ago. Capacity utilization was at 80 per cent in September, down from 86 per cent in March.

Unemployment, though low, is rising as economic activity eases. It had declined from 4.5 per cent in

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/26/80	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	130.233	+ 1.188	+ 6.780
Loans to Depository Inst.	2.215	+ .236	+ .194
Float	3.228	− 1.879	− 4.320
Total Reserve Bank Credit	142.142	− .499	+ 3.950
Treasury Deposits with Federal Reserve Banks	2.946	− .522	− .152
Currency Outside Banks	121.023	+ .023	+ 9.313
Member Bank Reserves:			
Required	39.904	− .113	− 2.983
Excess (Deficiency)	.365	− .008	+ .230
Total Reserves Held	40.269	− .121	− 2.753
Net Borrowed Reserves	1.735	+ .225	− .015
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	90.236	+ 1.487	+15.763

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	389.3	+ 9.8‡	+ 5.8‡
M-1B	414.3	+ 12.4‡	+ 7.8‡
M-2 (October '80)	1,653.6	+ 11.4	+ 9.5
L (August '80)	2,269.3	+ 9.9	+ 9.0

† Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

New York Money Market

Offering Rates 12/5/80	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	15.70%	14.80%	13.50%
* Federal Agencies	16.45	15.67	15.00
* Project Notes—Taxfree (46% Taxable Equivalent)	13.89	15.56	15.00
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market	16.50	16.88	

‡ Finance Company Paper—Prime

5- 14 days	17.50%
15- 29 days	17.75
30- 59 days	18.00
60- 89 days	15.00
90-270 days	14.00

‡* Bankers' Acceptances

Jan.	18.00%
Feb.	18.00
Mar.	17.50
Apr.	17.40
May	17.00
Jun.	15.70

‡ Industrial Paper—Prime

30- 89 days	17.00%
90-120 days	17.00

† Federal Funds Effective Rate 19.00%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'80	$ 2,587	$ 2,521	$ 2,397
Gross National Product (1972 Dollars)*	3rd Q'80	$ 1,412	$ 1,409	$ 1,433
Percent Change, Annual Rate	3rd Q'80	0.9%	− 9.6%	3.1%
Change in Consumer Prices (all urban consumers)*	Oct '80	12.0%	12.0%	12.0%
Change in Producer Prices*	Nov '80n	7.2%	9.6%	14.4%
Civilian Employment (Thousands of Persons)†	Nov '80n	97,396	97,176	97,608
Unemployment as % of Civilian Labor Force†	Nov '80n	7.5%	7.6%	5.8%
Personal Income*	Oct '80	$ 2,190	$ 2,167	$ 1,981
Leading Indicators Composite Index (1967=100)†	Oct '80n	136.3	135.1	137.8
Industrial Production Index (1967=100)†	Oct '80	146.0	143.7	152.7
Net Change in Consumer Installment Credit†	Sept '80	$ 1.45	$ 0.02	$ 4.45
U.S. Merchandise Trade Balance†	Oct '80n	−$ 0.97	−$ 0.76	−$ 2.36
Plant and Equipment Expenditures*	4th Q'80	$193.17(a)	$195.54(a)	$186.95
Private Housing Starts (Thousands of Units)*	Oct '80	1,569	1,545	1,710
New Construction Expenditures*	Oct '80n	$ 225.0	$ 224.1	$ 239.9
Total Business Inventories†	Sept '80	$ 454.5	$ 452.0	$ 418.5
Total Business Sales†	Sept '80	$ 317.6	$ 308.0	$ 296.8

* Seasonally adjusted annual rate. † Seasonally adjusted. n Newly reported figure. a Anticipated.

January 1980 to a low of 3.3 per cent in May, but it rose again to 3.8 per cent in October. In August, West Germany suffered a merchandise trade deficit for the first time in fifteen years. The $74 million of red ink contributed to an expected current account deficit for 1980 of over $15 billion.

The inflation rate, though falling (5.1 per cent in October over the same month in the previous year), is still the primary concern of the West German government. In an effort to keep the mark strong (and, thus, reduce the dollar cost of oil and other imports), interest rates have been kept at high levels with a consequent effect on growth. It is apparent that, whatever the merits of the "locomotive" theory, the world can expect little help from the West German economy in 1980 or 1981.

. . . The Rest Of The World

The United Kingdom entered recession during 1979 largely as the result of government policies aimed at reducing very high inflation and fundamentally restructuring the British economy. High interest rates and tight credit policies have kept the pound sterling strong but have also made the U.K.'s traditional exports less and less competitive. This fact, combined with continuing labor unrest, have created a difficult environment for British industry in spite of the Thatcher government's goal of restructuring the industrial sector toward free

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/19/80)	104,777	+ 1,968	+11,576
New York City (11/19/80)	26,010	+ 582	+ 6,203
Commercial Paper (11/19/80)	126,055	– 601	+15,037

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/19/80)	169,472	– 155	+15,640
New York City (11/19/80)	49,754	– 77	+ 4,439

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/19/80)	417,925	– 316	+27,463
New York City (11/19/80)	97,876	+ 834	+10,468

Financial Markets

	Friday 12/5/80	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	16.60%	+ 1.46	+ 4.45
180-Day Bills†	16.00	+ .58	+ 3.57
Longest Bills†	15.10	+ .20	+ .08
Recent Issues:			
13⅞s 11/30/82 (When Issued)	14.34	NA	
12⅛s 9/30/84	13.57	+ .18	
13s 11/15/90	12.86	+ .18	
12¾s 11/15/10	12.30	+ .01	
Municipals:			
Bond Buyer–20 Bond Index* (12/4/80)	9.84%	+ .22	+ 2.67
Blue List Total ($ Million)	$1,064	+ $188	+ $ 296
30-Day Visible Supply ($ Million)	$2,402	+ $388	+ $1,355
Total	$3,466	+ $576	+ $1,651
Corporates:			
Moody's Aa Composite (12/4/80)	13.63%	+ .23	+ 2.54
Money Mgr.–30-Day Supply ($ Million)	$3,938	– $480	+ $3,119
Stocks:			
Dow-Jones Averages:			
Industrials	956.23	– 37.11	+ 123.04
Transportation	398.28	– 27.40	+ 143.99
Utilities	114.24	– 2.70	+ 6.05
65 Stocks	371.78	– 17.09	+ 73.12
Standard and Poor's 500 Stocks	134.03	– 6.11	+ 26.51
N.Y.S.E. Composite Index	77.16	– 3.86	+ 15.60
N.Y.S.E. Avg. Daily Vol. for Week (000's)	40,582	–12,690	+ 4,172

* 46% Taxable equivalent 18.22%.

† Bond equivalent.

International Rates

	Friday 12/5/80	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	19.25%	18.50%
1 month	19.50	18.37
3 month	19.13	18.12
6 month	17.69	17.00
1 year	16.00	15.50
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	13.50%	12.76%
Long Term (7 to 15 yrs.)	13.00	12.67

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/5/80)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.03179	31.46
Canada	.8364	1.1956
Denmark	.1664	6.0080
France	.2203	4.5380
Germany	.5101	1.9605
Italy	.001076	929.25
Japan	.004701	212.70
Mexico	.04308	23.21
Netherlands	.4704	2.1260
Switzerland	.5656	1.7680
U.K.	2.3415	.4271

enterprise and away from government subsidies and control.

The success of the Thatcher program has been mixed. Inflation, which was running at a 22 per cent annual rate last summer, was down to a 15.5 per cent rate in October. Over the last six months the retail price index has risen at an annual rate of less than ten per cent. The rate of wholesale price increases has been slowing as well. At the same time unemployment has risen sharply, reaching 8.4 per cent in November, the highest level since before World War II. One year ago it was 5.3 per cent. Unemployment benefits have placed an enormous strain on the government's financial resources contributing to a rise in the public sector borrowing requirement (PSBR). A reduction in the PSBR is a major element in the government's anti-inflationary policies.

Output is falling. Industrial production declined by 3.4 per cent in the third quarter from the previous quarter and was nine per cent lower than in the third quarter of last year. Output in September was 9.3 per cent below the level of September 1979. Total output, seasonally adjusted, fell 1.9 per cent in the third quarter of this year from second quarter levels which, in turn, was 1.8 per cent below that of the first quarter. Total output of the U.K. economy is now six per cent below the peak reached in the second quarter of 1979.

In spite of the erosion of the U.K.'s trade competitiveness, the country's external position is good, largely due to a recession-related decline in imports and exports of North Sea oil. A current account surplus of as much as $2.3 billion is expected this year and perhaps next.

No recovery of the U.K. economy is in sight before the second half of 1981 and even then no real growth is expected for that year. Real GDP is expected to show a 2.3 per cent decline this year and perhaps a two per cent decline next year. With both the West German and U.K. economies expected to have sub-par performances during 1981, it is probable that the rest of the EEC countries—France, Italy, etc.—will also show little or no real growth. And with lessened demand for imports and exports among themselves and outside the EEC, the economic malaise in 1981 will undoubtedly be widespread. H

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